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SUBJECT: MEXICO ESTABLISHES DAILY MINIMUM WAGE FOR 2009

REF: 08 MEXICO 0013

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¶1. SUMMARY: On December 18, 2008 Mexico,s government announced the establishment of the country,s daily minimum wage for 2009. Mexico,s minimum wage is set annually by a Commission under the auspices of the GOM,s Labor Secretariat at the end of each calendar year. This year the Commission proposed and the GOM agreed to a 4.6 percent wage increase. As was the case last year, Mexico,s organized labor unions had wanted a 10 percent minimum wage increase which they stated was the least amount required to meet the basic needs of working families. In addition to seeking a higher minimum wage, again as was the case last year, the unions also unsuccessfully sought reforms in how the wage is set. The process for establishing Mexico,s daily minimum wage is an increasingly frustrating one for the country,s organized labor movement and a source of contention between it and the private sector. Mexico,s unions see the minimum wage as a constitutionally protected guarantee for ensuring a basic standard of living for workers. However, the country,s private sector routinely argues that no one in Mexico actually works for the minimum wage and therefore sees it more as a standard of reference. As such the private sector, and to significant degree the GOM, use the process of establishing a minimum wage as a tool for fighting inflation. The private sector,s assertion notwithstanding, according to the unions and some National University (UNAM) researchers, 47 percent of all Mexican workers earn just 1-2 times the daily minimum wage. . Given current exchange rates (approximately 1.00 USD = 12.9 pesos), even with the higher minimum wage most Mexican workers will face a cut in real terms in their daily minimum salary. Some of Mexico,s more left leaning labor unions are planning a march on January 30 to protest a minimum wage increase that they consider a &joke.8 END SUMMARY.

SETTING THE ANNUAL MINIMUM WAGE  
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¶2. Mexico,s minimum wage is established annually at the beginning of the calendar year following a series of intense negotiations among the three elements that make up the National Commission on Minimum Wages (CNSM); an entity under the auspices of the GOM,s Labor Secretariat (STPS). The Commission is composed of representatives from the GOM, the private sector and organized labor unions. In addition to setting the minimum wage, the CNSM is also supposed to ensure that the wage meets the constitutionally protected guarantee

of ensuring a Mexican family,s basic needs. In order to do this the Commission can periodically adjust the minimum salary throughout the year and it publishes a monthly bulletin to officially inform the public of the legal minimum wage.

13. In theory, and according to Mexican law, the country,s new annual minimum wage should take effect on the first day of a new calendar year. Moreover, the minimum wage the CNSM ultimately announces should be based on a signed agreement between the three parties to the Commission. In practice agreement on a minimum wage occasionally slips into mid January and there have been times when all parties within the CNSM failed to agree. When that happens, the minimum wage decreed by the CNSM is considered a suggested wage floor that employers are expected but not legally obliged to follow.

14. Another facet of the minimum wage in Mexico is the fact that the country actually has three minimum wages (wage A, B and C), each determined by geographic regions. The highest minimum wage is in urban areas designated as region A and the lowest are in rural areas or areas with low levels of industrialization designated as region C. The previous presidential administration of former President Fox had promised that it would establish a single wage region for all of Mexico but failed to implement the legal and administrative changes that would have made this promise a reality. The current administration under President Felipe Calderon has expressed a general desire to establish a single minimum wage for the entire country but has yet to take any concrete steps to make this happen. Mexico,s organized labor movement had hoped that the Calderon administration would establish a single minimum wage for the entire country and, as was the case last year, had again lobbied for this goal in this year,s negotiations. Unfortunately, from the union

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perspective, the other two parties to the CNSM were unwilling to establish a single national daily minimum wage for 2009. The most that they were willing to propose was to either freeze or establish a smaller increase in high wage area A to allow the lower wage areas of B and C to ultimately catch up. Needless to say this proposal was totally unacceptable to the unions.

#### MINIMUM DAILY WAGE FOR 2009 INCREASED BY 4.6 PERCENT

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15. Mexico,s organized labor sector went into the negotiation for the 2009 daily minimum wage publicly insisting on an increase of at least 10 percent. Last year the labor sector had privately hoped for a 6 percent increase and would probably have been happy getting five percent. This year however, the unions were extremely concerned about high price increases for basic goods in 2008 and an inflation rate that in their estimation would be at least 6.23 percent. The 4.6 percent increase the CNSM announced for 2009 was an improvement over the increase of 4 percent announced for 2008 (Ref) but not by very much in the few of Mexico,s organized labor unions. The announced wage increase for 2009 was sharply criticized by Federal Deputies (members of the lower house of Mexico,s congress) in Mexico,s two largest opposition parties, the PRD (Party of the Democratic Revolution) and the PRI (Institutional Revolutionary Party). The PRD, Mexico,s most vocal opposition party, was particularly harsh in its criticism of the new minimum wage correctly pointing out that at most the country,s lowest paid workers would only receive a salary increase of 2.40 pesos per day. This increase, a prominent PRD Federal Deputy decried was not even enough to buy a can of soda.

16. The new daily minimum wage took effect on January 1, 2009. The new minimum wage by geographic region in Mexico is as follows: In Region A which includes areas like Mexico City and selected parts of the states of Mexico, Baja

California, Chihuahua and Guerrero the wage is ) 54.80 (approx. USD 4.25); in Region B with areas like the cities of Monterrey, Guadalajara, Hermosillo and Tampico, the wage is ) 53.26 (USD 4.12); while in Region C with cities like Aguascalientes, Puebla, Oaxaca, San Luis Potosi and Zacatecas the rate is ) 51.95 (USD 4.03). Given current exchange rates, approx. 1.00 USD = 12.9 pesos, even with the higher minimum wage most Mexican workers will face a cut in real terms in their daily minimum salary. To place this in comparison, at the end of 2007 the dollar/peso exchange rate was approx. 1.00 USD = 10.9 pesos. This means that in US dollar terms a worker in area A who earned USD 4.82 a day in 2008 will only receive USD 4.25 in 2009. In areas B and C, respectively the USD equivalent of a worker's daily salary will drop from USD 4.67 to 4.12 and from 4.54 to 4.03.

#### UNIONS SEE MINIMUM WAGE PROCESS AS EXTREMELY FLAWED

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17. Although Mexico's organized labor sector again had to accept a minimum wage lower than it had hoped it was very vocal in expressing its dissatisfaction with the new wage. From the perspective of Mexico's labor sector the minimum wage should be adequate to meet a family's basic needs. Various spokespersons for Mexico's organized labor unions repeatedly pointed out that the country's constitution guarantees that the minimum wage must ensure a basic standard of living and the 2009 salary increase falls far short of this legal requirement. Representatives of the Confederation of Mexican Workers (CTM), the Mexican Electrical Workers Union (SME) which is part of the confederation called the National Workers Union (UNT), and the Revolutionary Confederation of Workers and Campesinos (CROC), respectively the country's three largest labor federations, pointedly remarked that the minimum wage was not a living wage. Furthermore they questioned the utility of an entity (the CNSM) and a process (the minimum wage negotiations) that failed so completely in one of its main responsibilities as stated in the Mexican constitution.

18. The criticisms of these labor federations were picked up and expanded on by several national newspapers. Many of these news media outlets focused on the comments made by the SME who called the 2009 minimum wage increase an immoral

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joke. In the SME's estimation the wage increase should have been at least two points above the projected rate of inflation of 6.23 percent. By that calculation unions state that the new minimum wage should have been 8.23 just to keep up with inflation. In the face of an inflation of over 6 percent the SME called for an emergency salary increase over and above the increase announced by the CNSM. It also called for government price controls on 20 basic food items such as edible oils, rice, sugar, beef, beans, eggs, tomatoes, milk, bread, potatoes, chicken and tortilla. Finally the SME announced that it is in the process of organizing a mass demonstration on January 30 2009 to protest the 4.6 percent minimum wage increase and to demand the abolition of the CNSM which it says no longer serves any useful function. Post notes that throughout 2008 many of Mexico's larger labor federations repeatedly called for emergency wages to help workers cope with a spiraling increase in the cost of basic food items. In response these calls the GOM has firmly declared its opposition to any type of emergency increase. None of Mexico's other unions have called for price controls of basic food items. The GOM did not respond to the SME's call for government price controls but the Calderon administration has called on food producers to implement voluntary price controls in the past and it is conceivable that it could resort to this practice again if it believed the situation required such drastic action.

#### PRIVATE SECTOR SEES CNSM AS TOOL TO FIGHT INFLATION

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¶9. Perhaps the main reason why the CNSM is viewed as such a failure by Mexico,s organized labor movement is that the Commission is seen so differently by it and the country,s private sector. Mexico,s private sector representatives on the CNSM are convinced that no workers actually accept jobs paying only the minimum wage; therefore they see no reason to try and raise the minimum wage to a level that would cover the cost of a basic basket of goods. What the private sector representatives do see, and they are not really wrong in this matter, is that over time the minimum wage has changed from a floor for maintaining a worker,s basic standard of living into a standard of reference that impacts all aspects of Mexico,s economy.

¶10. Mexico,s minimum wage was originally established to provide a basic standard of living and apparently it initially succeeded. However, an unintended consequence of this success was that everyone knew exactly what the daily minimum wage was. This widespread knowledge of the exact amount of the minimum wage soon lent itself to other unintended purposes. First job offers, then private service fees and ultimately government fines, tax tables and a broad range of other financial indicators were increasingly determined by multiples of the daily minimum wage. This practice has now become so prevalent throughout Mexican society that a clear link can arguably be drawn between increases in the daily minimum wage and the level of inflation in Mexico. Consequently, the private sector members of the CNSM see their role as that of holding the line against inflation. The GOM,s actions on the CNSM in consistently voting with the private sector in minimum wage negotiations and against the labor unions, demands for higher wages seem to imply that the government too sees the Commission as a tool for controlling inflation.

#### CNSM BOTH FIGHTS INFLATION AND SETS REAL WAGES

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¶11. Because of the widespread use of the official minimum wage by both the private sector and all levels of government in Mexico as a standard of reference it would be hard (and probably futile) to argue that it does not have a very real impact on inflation. What has not been very successfully argued for some time is the proposition that for many Mexican workers the minimum wage is their real wage. The thinking of many in the private sector and apparently some levels of the Mexican government is that since no one could live on the minimum wage then clearly no one does. Consequently, they see nothing to be gained by trying to raise the wage to a level that would actually enable a worker to cover the costs of the basic basket of goods and a great deal to be lost in terms of sparking inflation.

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¶12. This perspective has been challenged by an NGO named the Center for Labor Investigations and Union Consultants (CILAS) and researchers in the Faculty of Economics at the Autonomous National University of Mexico (UNAM). According to CILAS, some 30 million Mexicans live on 30 pesos a day, another 20 million live on 12-22 pesos per day. CILAS argues that many of these people are not only a part of the working poor but that they earn so little that in order to survive their only options are to beg, engage in criminal activities or immigrate.

¶13. A study done by the UNAM researchers which focused mainly, but not exclusively, on workers in Mexico,s manufacturing sector vigorously contested the CNSM argument that few if any Mexicans actually work for the official minimum wage. According to the researchers some 10.8 million Mexicans work for the daily minimum wage or less. Mission Mexico,s Labor Counselor has personally met janitorial and

retail store workers in Mexico City, and Maquiladora (foreign owned assembly plants) in the state of Puebla who work for only twice the daily minimum wage or less. This figure, the researchers said, represented 23.9 percent of all working age Mexican. Moreover, UNAM researchers added, another 9.56 million workers make only 2 times the minimum wage which at best would be 109.60 pesos (approx. USD 8.50 at current exchange rates). Together, the UNAM team asserted, these two groups represent 67 percent of all working age Mexicans.

#### COMMENT

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¶14. The process of establishing a minimum wage in Mexico continues to be severely complicated by the fact that the three elements who determine the wage see the process very differently and to a significant degree all three are right. The private sector and the GOM see the minimum wage process; correctly it would appear, as a tool for combating inflation.

Mexico's organized labor sector views the process, also apparently correctly, as a way to maintain a basic minimum standard of living for workers. The results of these differing perspective on the goals of establishing an official minimum wage contributes to a process that is somewhat effective in fighting inflation but which leave much to be desired in terms of providing workers with a basic standard of living that discourages recourse to begging, crime or immigration.

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